

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 /111 W

----- 117101

R 181734Z JUL 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 1525

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 02 BONN 11704

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING JULY 17)

REF: BONN 11652

1. ON JULY 17 THE CENTRAL BANK COUNCIL OF THE BUNDES-BANK DECIDED TO REDUCE, EFFECTIVE AUGUST 1, RESERVE REQUIREMENTS FOR THE BANKS' FOREIGN LIABILITIES TO THE LEVEL NOW APPLICABLE FOR THE BANKS' DOMESTIC LIABILITIES (SEE BONN 11652). ACCORDING TO THE BUNDES-BANK, THE ACTION WILL RELEASE RESERVES OF DM 1.5 BILLION.

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2. FOREIGN EXCHANGE MARKET: THE DOLLAR CONTINUED TO

STRENGTHEN. THE SPOT DOLLAR RATE REACHED ON JULY 16 WAS THE HIGHEST SINCE DECEMBER 4, 1974. DURING THE REPORTING WEEK SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

FORWARD DOLLARS (DISCOUNTS IN PCT. P.A.)			
SPOT DOLLARS	ONE-MONTH	THREE-MONTH	
JULY 10 DM 2.4173	-2.5	-3.1	
11 2.4312	-3.2	-3.1	
14 2.4515	-3.2	-3.3	
15 2.4453	-2.7	-3.2	
16 2.4795	-1.9	-2.7	
17 2.4750	-2.7	-2.9	

WITHIN THE JOINT FLOAT THE POSITION OF THE DEUTSCHEMARK CHANGED LITTLE WITH SWEDISH CROWNS REMAINING NEAR THEIR UPPER DEUTSCHEMARK INTERVENTION POINT. THE FRENCH FRANC RE-ENTERED THE JOINT FLOAT AT A DEUTSCHEMARK RATE OF DM 58.50 PER FRENCH FRANC 100. THE FRENCH FRANC/DEUTSCHEMARK CENTRAL RATE IS FIXED AT DM 57.9703 PER FRENCH FRANC 100, THE UPPER DEUTSCHEMARK INTERVENTION POINT AT DM 59.290, AND THE LOWER INTERVENTION POINT AT DM 56.680. THESE RATES ARE UNCHANGED FROM THOSE PREVAILING IN JANUARY 1974 WHEN FRANCE LEFT THE JOINT FLOAT.

3. MONEY MARKET: THE GERMAN CALL MONEY MARKET TIGHTENED TOWARD THE END OF THE WEEK WHEN PAYMENTS FOR THE MINOR MID-MONTH TAX DATE BEGAN. HOWEVER, CALL MONEY RATES REMAINED SUBSTANTIALLY BELOW THE 4 1/2 PERCENT REDISCOUNT RATE. RATES FOR ONE-MONTH AND THREE-MONTH MONEY WHICH WERE RATHER STABLE FOR ABOUT 7 WEEKS HAVE NOW DECLINED SLIGHTLY. DURING THE REPORTING WEEK FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

	CALL MONEY	ONE-MONTH MONEY	THREE-MONTH MONEY
JULY 10	3.7-3.9	4.4-4.6	4.5-4.7
11	3.3-3.5	4.2-4.5	4.4-4.7
14	3.2-3.5	4.2-4.5	4.4-4.5

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15	3.2-3.5	4.2-4.5	4.4-4.7
16	3.9-4.1	4.2-4.5	4.4-4.7
17	3.8-4.1	4.2-4.5	4.4-4.7

4. BUNDESBANK FOREIGN POSITION: IN THE FIRST WEEK OF JULY (JULY 1-7) THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.3 BILLION TO DM 82.0 BILLION. HOLDINGS OF LIQUID FOREIGN EXCHANGE FELL BY DM 140 MILLION

WHILE GROSS LIABILITIES INCREASED BY DM 160 MILLION.

5. BANK LIQUIDITY: IN THE FIRST WEEK OF JULY BANK
LIQUIDITY INCREASED BY DM 3.1 BILLION. PRINCIPAL
FACTORS INCREASING LIQUIDITY WERE A DM 2.8
BILLION DECLINE IN OFFICIAL NET ASSETS HELD AT THE
BUNDESBANK AND A DM 2.5 BILLION DECLINE IN THE BANKS'

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SIL-01 L-03 H-02 PA-02 PRS-01 /111 W

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R 181734Z JUL 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 1526

INFO AMEMBASSY BERN

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AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 02 OF 02 BONN 11704

HOLDINGS OF RESERVES AT THE BUNDESBANK ATTRIBUTABLE TO
THE 10 PERCENT REDUCTION IN THE BANKS' RESERVE REQUIRE-
MENTS EFFECTIVE JULY 1. VARIOUS OTHER FACTORS REDUCED
LIQUIDITY BY DM 2.2 BILLION. THE BANKS USED THE INCREASE

IN LIQUIDITY TO REDUCE REDISCOUNT BORROWINGS BY DM 0.5
BILLION AND LOMBARD BORROWINGS BY DM 2.6 BILLION (TO
PRACTICALLY ZERO).

6. BOND MARKET: THE SELLING PRESSURE ON THE GERMAN
BOND MARKET SUBSIDED AND THE BUNDESBANK WAS NO LONGER
FORCED TO PURCHASE SUBSTANTIAL AMOUNTS OF OUTSTANDING
DOMESTIC BONDS IN ORDER TO PREVENT INCREASES IN BOND
YIELDS. DURING THE REPORTING WEEK BUNDESBANK INTER-
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VENTIONS AMOUNTED REPORTEDLY ONLY TO ABOUT DM 60 MILLION
AS COMPARED WITH MORE THAN DM 300 MILLION DURING THE
LAST REPORTING WEEK. FAZ AVERAGE YIELDS TO MATURITY OF
OUTSTANDING DOMESTIC BONDS DEVELOPED AS FOLLOWS:

8 PERCENT 7 PERCENT 6 PERCENT

JULY 10	8.61	8.74	8.23
11	8.63	8.75	8.21
14	8.64	8.76	8.20
15	8.65	8.77	8.24
16	8.67	8.75	8.19
17	8.69	8.75	8.23

THE GERMAN FINANCIAL PRESS REPORTED THE CURRENT OFFER OF
TWO PRIVATE PLACEMENTS OF FOREIGN DM BONDS: DM 40
MILLION FOR THE ARDAL OG SUNNDAL VERK, OSLO, AND DM 20
MILLION FOR THE YOSHIDA KOGYO K.K., TOKYO. BOTH TYPES
OF BONDS CARRIED A COUPON OF 8 3/4 PERCENT BUT THE
ARDAL SUNNDAL BONDS A MATURITY OF 6 YEARS AND YOSHIDA
BONDS A MATURITY OF 5 YEARS.
HILLENBRAND

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